

Linden Community Schools

Linden, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2006

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LINDEN COMMUNITY SCHOOLS

For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 18, 2006

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **LINDEN COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Linden Community Schools, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Linden Community Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Linden Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Linden Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,441,846 (*net assets*). Of this amount, \$2,666,244 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The government's total net assets increased by \$915,014 from the prior year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,631,825, a decrease of \$11,934,424 in comparison with the prior year. Approximately 99.9% or \$6,622,379 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,243,669 or 14% of total general fund expenditures.
- Investments for the future were made by spending approximately \$13,300,000 on school facilities and related equipment. The bulk of this spending was accomplished by using proceeds from the 2003 bond issue.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the District-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2006.

The District-wide financial statements can be found on pages 15-16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and 2003 capital projects funds, each of which are considered to be a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 22-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 24-38 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements and can be found on pages 39-40 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,441,846 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (68 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets

	Governmental Activities	
	2005-06	2004-05
Current and other assets	\$ 9,698,437	\$22,138,517
Capital assets, net	38,935,500	27,147,784
Total assets	48,633,937	49,286,301
Long-term liabilities outstanding	36,152,150	35,716,547
Other liabilities	3,039,941	4,678,883
Total liabilities	39,192,091	40,395,430
Net assets:		
Invested in capital assets, net of related debt	6,420,730	4,690,779
Restricted	354,872	1,097,153
Unrestricted	2,666,244	2,738,900
Total net assets	\$ 9,441,846	\$ 8,526,832

An additional portion of the District's net assets (6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (28 percent or \$2,666,244) may be used to meet the District's ongoing obligations to its programs.

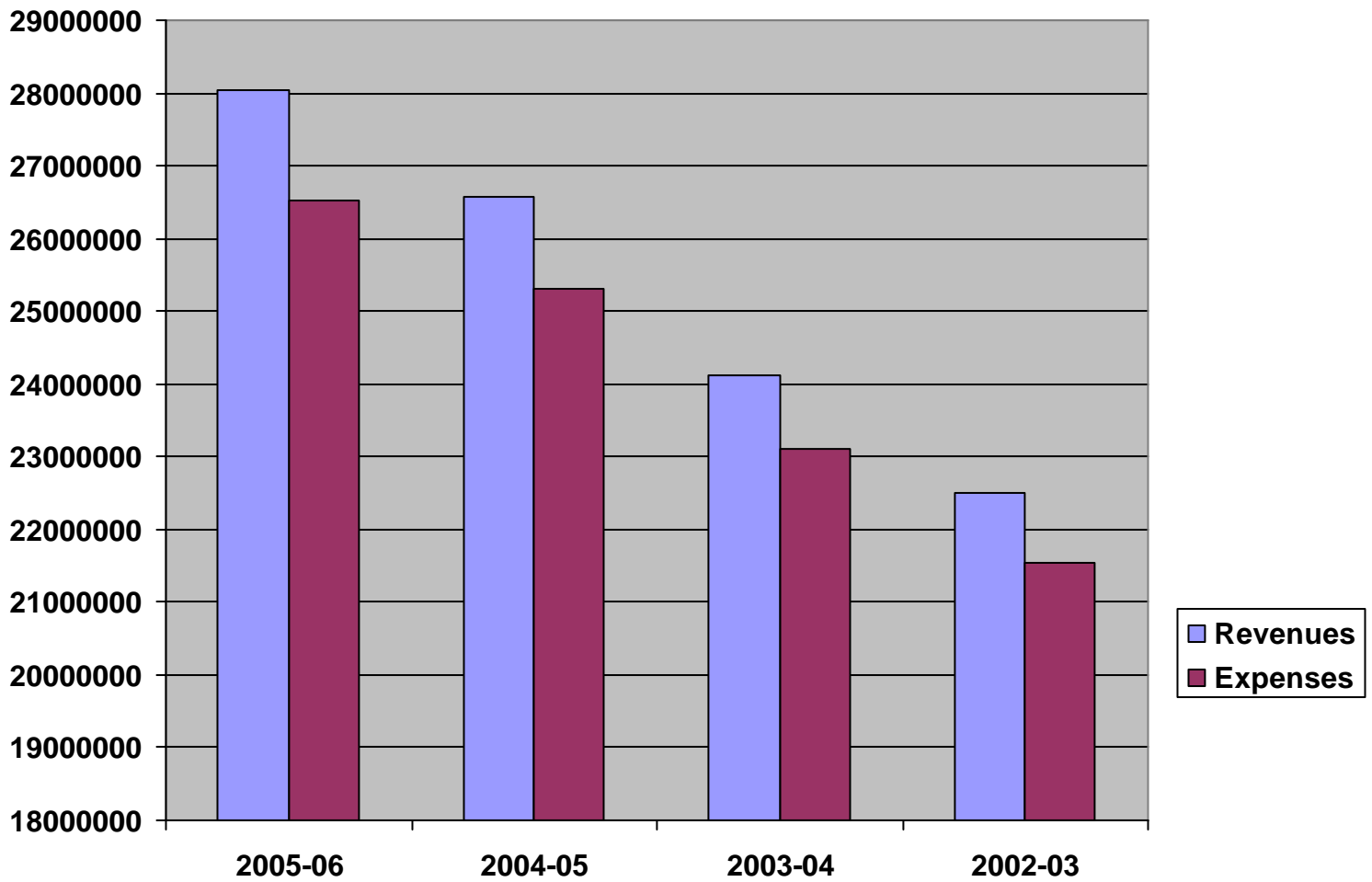
At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The government's net assets increased by \$915,014 during the current fiscal year. This is compared to an increase of \$1,278,819 in the prior year. Most of this increase seen over the past two fiscal years is due to continual enrollment increases. The State's foundation allowance saw a small increase for the 2005-06 fiscal year, which coupled with the increase in enrollment, was enough to almost keep pace with the steep increases in salaries, benefits and utilities. Without the added boost from the proceeds on the sale of excess land (\$790,000), results for 2005-06 would have been below those of 2004-05.

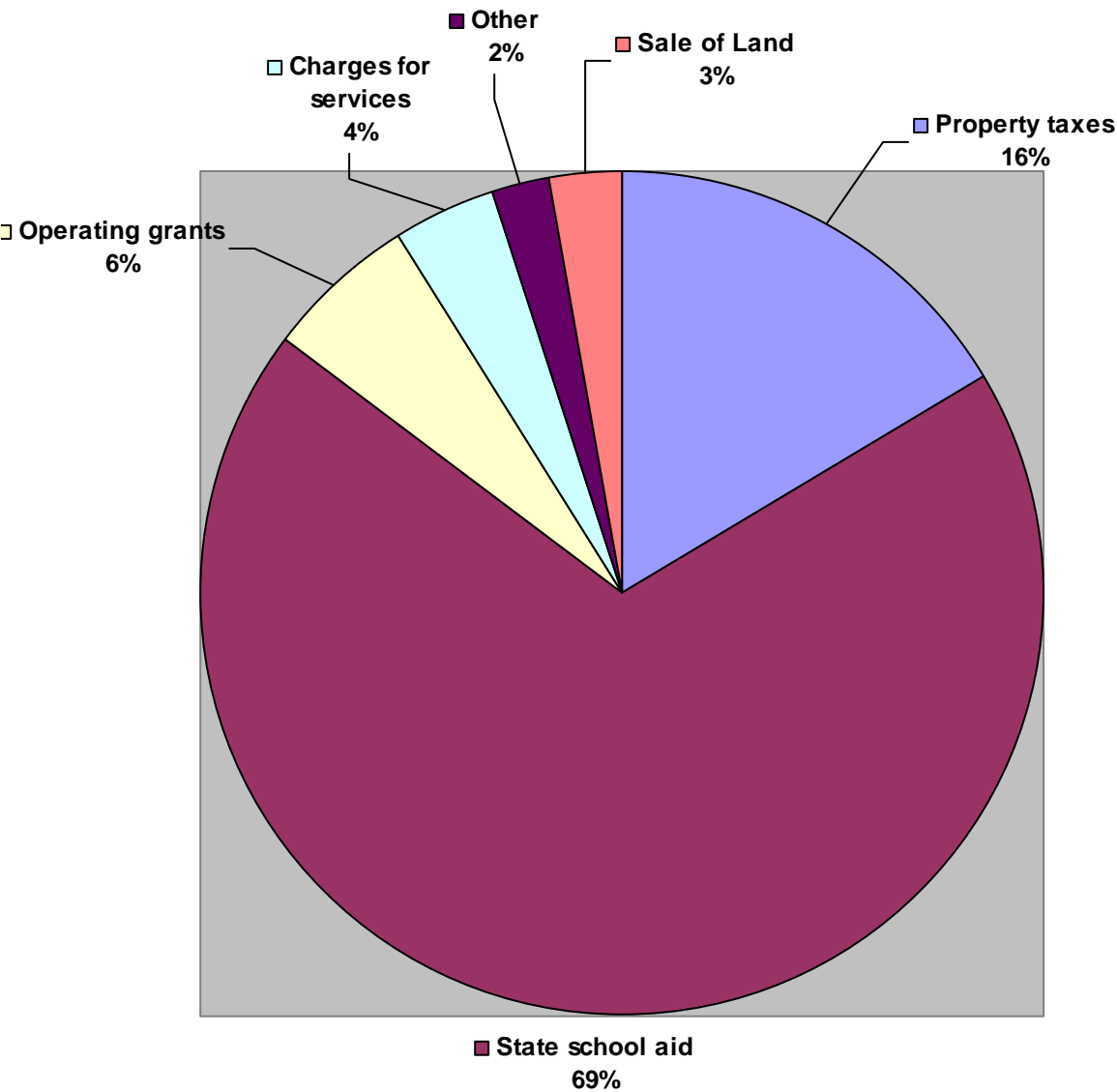
District's Changes in Net Assets

	Governmental Activities	
	2005-06	2004-05
Revenue:		
Program revenue:		
Charges for services	\$ 1,073,330	\$ 898,622
Operating grants and contributions	1,633,579	2,014,144
General revenue:		
Property taxes	4,616,274	4,319,400
State school aid	19,308,812	18,446,098
Other	1,408,355	905,351
Total revenue	28,040,350	26,583,615
Expenses:		
Instruction	13,393,796	12,034,058
Supporting services	9,752,966	8,265,136
Community service	350,064	333,632
Athletics	562,820	546,487
Food service	974,035	973,695
Interest on long-term debt	1,580,925	1,609,641
Unallocated depreciation	510,730	418,286
Other transactions	-	1,123,861
Total expenses	27,125,336	25,304,796
Increase (decrease) in net assets	915,014	1,278,819
Net assets, beginning of year, as restated	8,526,832	7,248,013
Net assets, end of year	\$ 9,441,846	\$ 8,526,832

Total Expenses vs. Total Revenues – Governmental Activities

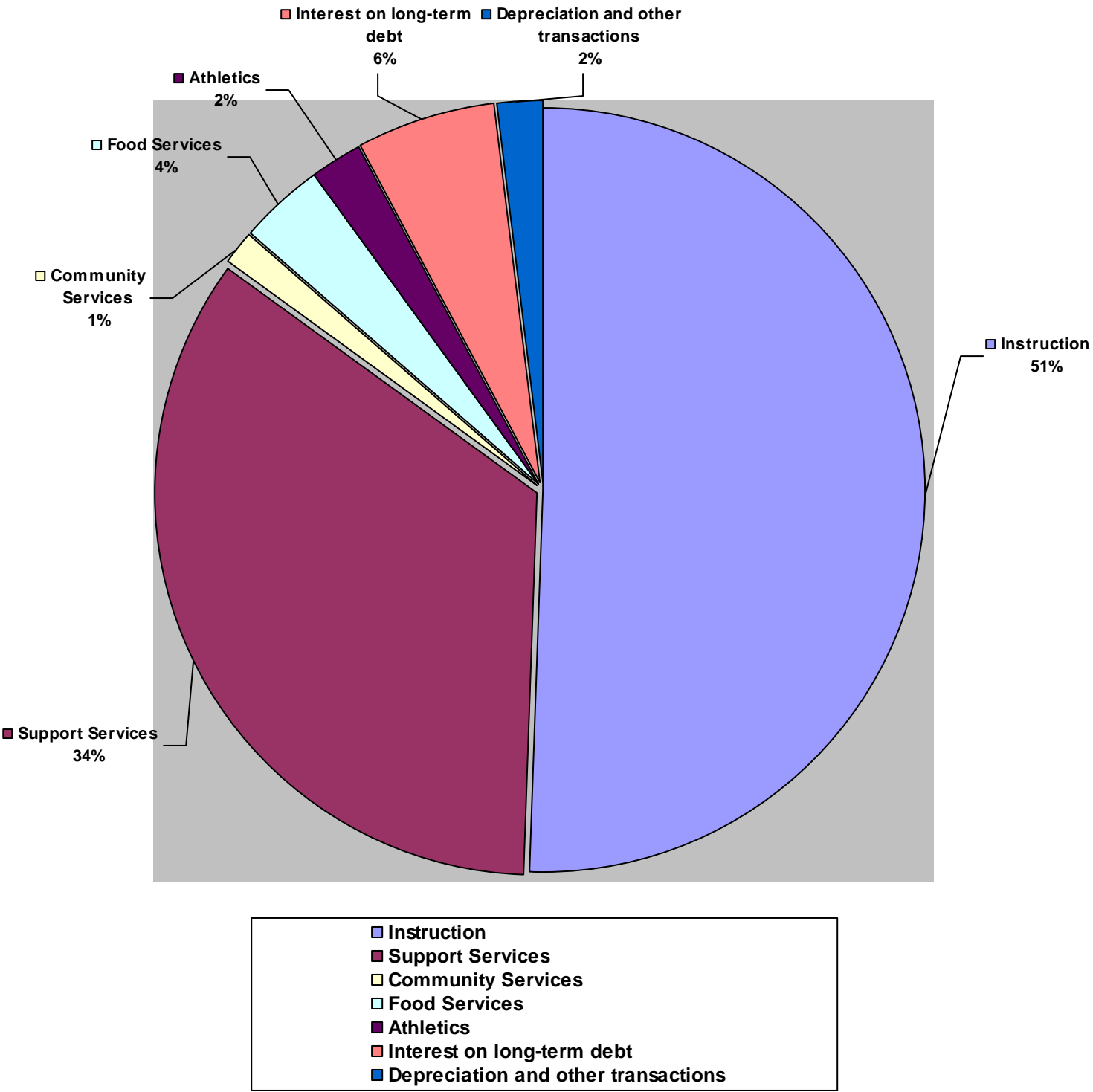


Revenues by Source – Governmental Activities

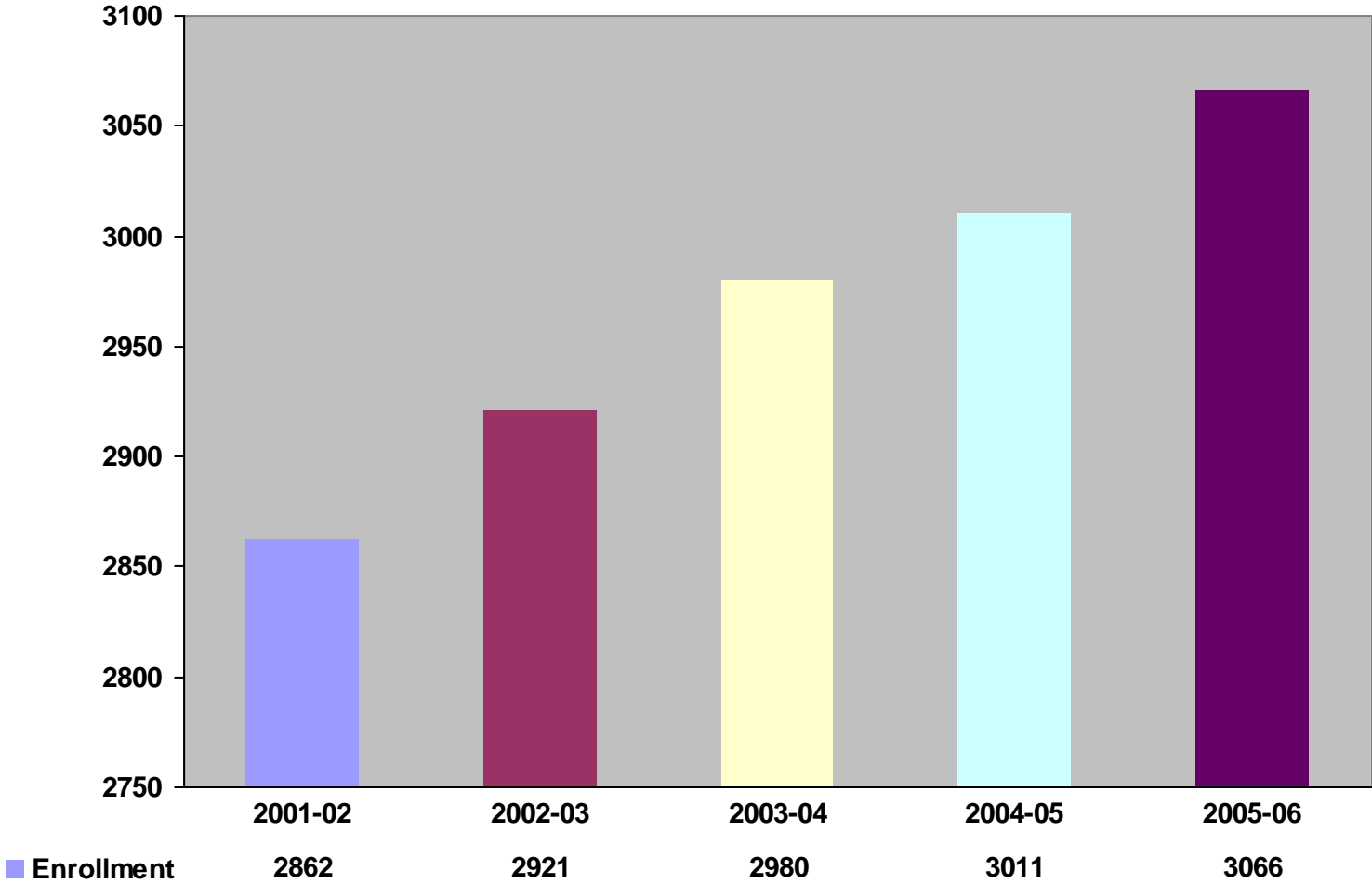


Property taxes	State school aid	Operating grants
Charges for services	Other	Sale of Land

Expenses of Object – Governmental Activities



Enrollment



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$6,631,825 a decrease of \$11,934,424 in comparison with the prior year. Approximately 99% of this total amount (\$6.6 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and construction in progress and are not available for current expenditure.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,243,669. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 14 percent, or 1 1/2 months, of total general fund expenditures.

During the current fiscal year, the fund balance in the District's general fund increased by \$422,602. This is primarily attributable to the completion of a \$790,000 land sale transaction. The proceeds from this transaction, while available for spending, have been designated by the Board of Education for capital improvements throughout the district. As of the year end, approximately \$137,000 had been spent on constructing four little league tee-ball fields that are projected to cost approximately \$200,000.

The 2003 capital projects fund incurred approximately \$12,000,000 of expenditures while completing the District's newest middle school and providing capital improvements to many of the District's existing structures. These expenditures helped to bring the total fund balance down to \$2,802,867. At year end, the District was in the midst of completing its final bond application project – the renovation of the old middle school into a new elementary building.

General Fund Budgetary Highlights

Due to the fact that the District's new Business Manager began work in early June 2005, unknown enrollment figures, and indefinite State Aid figures, the Board of Education adopted a "rollover" budget as its original adopted budget in late June 2005. The rollover budget enacted the Board's final amended budget numbers from the preceding fiscal year as its estimate of current year operations. Based on this fact differences between the original and final amended budgets were relatively large in comparison to the overall budgeted amount.

Differences between the final amended budget and actual results were significantly less. Both total revenues and total expenditures were off by less than 1%, making the budget projections nearly 100% accurate.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$38,935,500 (net of accumulated depreciation), which is an increase over the prior year's investment of \$27,147,784 (as restated). This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was due mainly to the construction work being completed in the District from the 2003 bond issue. The vast majority of the increase is the construction/completion of the district's new middle school, which opened in January 2006.

District's Capital Assets (net of depreciation)

	<u>2005-06</u>	<u>2004-05</u>
Land, Buildings and additions	\$ 33,970,707	\$ 6,138,962
Site improvements	3,913,503	526,068
Equipment and furniture	147,240	154,112
Vehicles	16,093	17,881
Construction in progress	<u>887,957</u>	<u>20,310,761</u>
Total	<u>\$ 38,935,500</u>	<u>\$ 27,147,784</u>

The District's investment in capital assets for its governmental activities as of June 30, 2005, (net of accumulated depreciation) was restated to reflect the results of a physical inventory/asset valuation performed by an independent third-party.

Additional information on the District's capital assets can be found in note III.C on page 32 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$35,522,396. Of this amount \$204,759 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state aid payments from the State of Michigan.

The District's total debt decreased by \$1,197,561 during the current fiscal year. Total debt outstanding was mostly reduced by regularly scheduled principle payments.

In addition, the District twice refunded portions of the 2003 Building and Site bonds during the current fiscal year. Overall, the District will save nearly \$900,000 in avoided interest charges over the next 20 years. The net present value of these savings results in over \$500,000 saved in current dollars.

Additional information on the District's long-term debt can be found in note III.F on pages 34-36 of this report.

Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2006-07 fiscal year:

- Contract settlements have not been reached with the bargaining units representing the District's secretaries, support staff and administrators. All contracts expired on June 30, 2006, except for the support staff whose contract expired one year prior. Negotiations are ongoing. Settlement figures, or ranges, are uncertain so the financial impact cannot be estimated at this time.
- Health insurance related benefits (i.e. medical, dental and vision) have seen significant increases over the past few years. This is not isolated to the District and can be seen across the country. Recent increases have exceeded national averages. Management does not anticipate a sustained decline in these increases in the near future. With no full time staff contributing to the costs of these benefits, such increases severely threaten the District's financial position.
- The contribution rate for retirement services has been increased by the State of Michigan for the 2006-07 fiscal year from 16.34% to 17.74% of gross salaries. This represents a considerable cost increase to the District. Preliminary reports indicate the retirement rate for the 2007-08 fiscal year could exceed 19%.
- The District is beginning to see an alarming trend in the reduction of certain federal grant allocations. Continual decline in these funding sources could result in the reduction of certain special need services, or the use of available resources to cover shortfalls.
- High rate increases in the District's utilities (natural gas, electric, diesel fuel) have been seen in the last few months/years. These increases are based on market and weather conditions and always place a certain level of uncertainty on the District's budget projections.
- The District saw a significant decrease in the number of students enrolled for the February 2006 count day. Preliminary enrollment numbers for the 2006-07 fiscal year, while up from the February count, appear to be below the enrollment trend used to build the 2006-07 budget. The state's economic outlook is bleak and could have an undetermined effect on the enrollment of the District.
- The District's sinking fund millage will expire in the 2006-07 fiscal year. If a renewal is not passed by the District's voters, a significant additional burden could be placed on the general fund for future capital improvements.
- Through petition drives, a statewide initiative will be placed before Michigan voters in November 2006 related to school funding. The proposal could force the legislature to fund school districts with annual inflationary increases, cap retirement contributions from local school districts, assist declining enrollment districts, and reduce the equity gap between the highest-funded and lowest-funded schools. Passage of this proposal could have a major impact on the District.

The above listed items encompass the major challenges for the 2006-07 fiscal year that will undoubtedly feature rising expenses with sluggish, if not declining, revenues. Such a combination will mean the District will be forced to consume a considerable amount of available fund equity for the coming year(s).

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent, 7205 West Silver Lake Rd, Linden, MI 48451.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,656,174
Investments	2,196,488
Receivables	3,836,329
Prepaid items and other assets	9,446
Capital assets not being depreciated	887,957
Capital assets being depreciated, net	<u>38,047,543</u>
Total assets	<u>48,633,937</u>
Liabilities	
Accounts payable and accrued liabilities	2,795,607
State aid note payable	197,247
Unearned revenue	47,087
Noncurrent liabilities:	
Due within one year	1,342,580
Due in more than one year	<u>34,809,570</u>
Total liabilities	<u>39,192,091</u>
Net assets	
Invested in capital assets, net of related debt	6,420,730
Restricted for:	
Construction projects	297,514
Other purposes	57,358
Unrestricted	<u>2,666,244</u>
Total net assets	<u><u>\$ 9,441,846</u></u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS

Statement of Activities For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 13,393,796	\$ 330,344	\$ 1,175,585	\$ (11,887,867)
Supporting services	9,752,966	-	122,530	(9,630,436)
Community service	350,064	58,486	33,000	(258,578)
Athletics	562,820	57,705	1,668	(503,447)
Food service	974,035	626,795	293,229	(54,011)
Interest on long-term debt	1,580,925	-	7,567	(1,573,358)
Unallocated depreciation	510,730	-	-	(510,730)
Total	<u>\$ 27,125,336</u>	<u>\$ 1,073,330</u>	<u>\$ 1,633,579</u>	<u>(24,418,427)</u>
General revenues:				
Property taxes				4,616,274
Unrestricted state aid				19,308,812
Grants and contributions not restricted to specific programs				164,493
Unrestricted investment earnings				453,862
Gain on sale of capital assets				790,000
Total general revenues				<u>25,333,441</u>
Change in net assets				915,014
Net assets, beginning of year, as restated				<u>8,526,832</u>
Net assets, end of year				<u>\$ 9,441,846</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

Balance Sheet
Governmental Funds
June 30, 2006

		2003 Capital Projects	Other Governmental Funds	
<u>ASSETS</u>	<u>General</u>			<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 1,919,355	\$ 1,151,913	\$ 584,906	\$ 3,656,174
Investments	-	2,196,488	-	2,196,488
Due from other governments	3,620,170	-	216,159	3,836,329
Inventory	-	-	9,446	9,446
<u>TOTAL ASSETS</u>	<u>\$ 5,539,525</u>	<u>\$ 3,348,401</u>	<u>\$ 810,511</u>	<u>\$ 9,698,437</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 100,671	\$ 545,534	\$ 7,676	\$ 653,881
Salaries and benefits payable	1,881,496	-	12,787	1,894,283
Deferred revenue	116,442	-	204,759	321,201
Notes payable	197,247	-	-	197,247
Total liabilities	<u>2,295,856</u>	<u>545,534</u>	<u>225,222</u>	<u>3,066,612</u>
Fund balances				
Reserved for inventory	-	-	9,446	9,446
Unreserved:				
Designated for capital improvements	652,500	-	-	652,500
Designated for future operations	383,337	-	-	383,337
Undesignated	2,207,832	2,802,867	-	5,010,699
Undesignated, reported in nonmajor				
Special revenue funds	-	-	47,912	47,912
Debt service funds	-	-	230,417	230,417
Capital projects funds	-	-	297,514	297,514
Total fund balances	<u>3,243,669</u>	<u>2,802,867</u>	<u>585,289</u>	<u>6,631,825</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,539,525</u>	<u>\$ 3,348,401</u>	<u>\$ 810,511</u>	<u>\$ 9,698,437</u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 6,631,825
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	45,431,434
Deduct: accumulated depreciation	(6,495,934)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	274,114
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and loans payable	(36,159,759)
Add: unamortized bond issuance costs	329,606
Add: unamortized loss on refunding	891,942
Deduct: unamortized bond premium	(614,859)
Add: unamortized bond discount	30,674
Deduct: accrued interest on bonds payable	(247,443)
Deduct: compensated absences	(149,754)
Deduct: early retirement incentives	(480,000)

Net assets of governmental activities	<u><u>\$ 9,441,846</u></u>
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The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
Governmental Fund:
For the Year Ended June 30, 2006

	General	2003 Capital Projects	Other Governmental Funds	Totals
Revenue				
Local sources	\$ 1,928,388	\$ 347,396	\$ 3,807,359	\$ 6,083,143
State sources	19,688,795	-	68,812	19,757,607
Federal sources	822,525	-	248,769	1,071,294
Transfers from other districts	389,769	-	-	389,769
		-		
Total revenue	<u>22,829,477</u>	<u>347,396</u>	<u>4,124,940</u>	<u>27,301,813</u>
Expenditures				
Education:				
Instruction	13,702,390	-	-	13,702,390
Support services	8,979,679	-	-	8,979,679
Food service activities	-	-	974,035	974,035
Athletic programs	-	-	562,820	562,820
Debt service:				
Principal	-	-	966,785	966,785
Interest	-	-	1,463,841	1,463,841
Bond issuance costs	-	-	219,592	219,592
Capital outlay	-	12,102,163	1,277,343	13,379,506
Total expenditures	<u>22,682,069</u>	<u>12,102,163</u>	<u>5,464,416</u>	<u>40,248,648</u>
Revenue over (under) expenditures	<u>147,408</u>	<u>(11,754,767)</u>	<u>(1,339,476)</u>	<u>(12,946,835)</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	790,000	-	-	790,000
Issuance of long-term debt	-	-	15,600,000	15,600,000
Bond discount	-	-	(32,168)	(32,168)
Payment to escrow agent	-	-	(15,345,421)	(15,345,421)
Transfers in	-	-	514,806	514,806
Transfers out	(514,806)	-	-	(514,806)
Total other financing sources (uses)	<u>275,194</u>	<u>-</u>	<u>737,217</u>	<u>1,012,411</u>
Net change in fund balances	422,602	(11,754,767)	(602,259)	(11,934,424)
Fund balances, beginning of year, as restated	<u>2,821,067</u>	<u>14,557,634</u>	<u>1,187,548</u>	<u>18,566,249</u>
Fund balances, end of year	<u><u>\$ 3,243,669</u></u>	<u><u>\$ 2,802,867</u></u>	<u><u>\$ 585,289</u></u>	<u><u>\$ 6,631,825</u></u>

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (11,934,424)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	12,298,446
Deduct: depreciation expense	(510,730)
Add: proceeds from the sale of capital assets	(790,000)
Deduct: gain on disposal of capital assets	790,000

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables	(51,463)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	966,785
Add: payments on capital leases	33,164
Deduct: proceeds from issuance of long-term liabilities	(15,600,000)
Add: payment to refunding bond escrow agent	15,345,421

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds and loans	(84,376)
Add: bond issuance costs capitalized	219,592
Add: bond discount capitalized	32,168
Add: amortization of bond issuance costs and loss on refunding	(32,708)
Deduct: increase in the accrual for compensated absences	(6,861)
Deduct: increase in early retirement incentives payable	240,000

Change in net assets of governmental activities	\$ 915,014
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The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	\$ 1,845,520	\$ 1,910,586	\$ 1,928,388	\$ 17,802
State sources	18,602,374	19,664,623	19,688,795	24,172
Federal sources	707,815	1,021,764	822,525	(199,239)
Transfers from other districts	666,426	182,300	389,769	207,469
 Total revenue	 21,822,135	 22,779,273	 22,829,477	 50,204
Expenditures				
Instruction				
Basic programs	9,989,625	10,702,219	10,678,805	(23,414)
Added needs	1,882,273	2,200,022	2,513,723	313,701
Transfers to other districts	569,000	509,900	509,862	(38)
 Total instruction	 12,440,898	 13,412,141	 13,702,390	 290,249
Supporting services				
Pupil services	1,400,123	1,514,893	1,158,921	(355,972)
Instructional support	1,164,273	1,293,805	1,274,307	(19,498)
General administration	808,124	821,881	811,374	(10,507)
School administration	1,223,953	1,265,729	1,255,199	(10,530)
Business services	556,610	444,383	434,004	(10,379)
Operations and maintenance	1,983,105	2,239,570	2,166,701	(72,869)
Transportation	1,188,570	1,300,700	1,292,961	(7,739)
Technology	220,817	241,194	236,148	(5,046)
Community Services	344,459	353,867	350,064	(3,803)
 Total supporting services	 8,890,034	 9,476,022	 8,979,679	 (496,343)
 Total expenditures	 21,330,932	 22,888,163	 22,682,069	 (206,094)
 Revenue over (under) expenditures	 491,203	 (108,890)	 147,408	 256,298
Other financing sources (uses)				
Proceeds from sale of capital assets	-	790,000	790,000	-
Transfers out	(485,000)	(514,806)	(514,806)	-
 Total other financing sources (uses)	 (485,000)	 275,194	 275,194	 -
 Net change in fund balance	 6,203	 166,304	 422,602	 256,298
 Fund balances, beginning of year, as restated	 2,821,067	 2,821,067	 2,821,067	 -
Fund balances, end of year	\$ 2,827,270	\$ 2,987,371	\$ 3,243,669	\$ 256,298

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Private- Purpose Trust Fund</u>	
	<u>Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 190,262
Investments	214,095	-
	<u>214,095</u>	<u>-</u>
Total assets	214,095	<u><u>\$ 190,262</u></u>
Liabilities		
Due to student groups	-	\$ 190,262
	<u>-</u>	<u><u>\$ 190,262</u></u>
Net assets		
Unrestricted	<u><u>\$ 214,095</u></u>	

The accompanying notes are an integral part of these financial statements.

LINDEN COMMUNITY SCHOOLS
Statement of Changes in Fiduiary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2006

	<u>Scholarships</u>
Additions	
Local revenue - interest	\$ 12,782
Deductions	
Scholarships	<u>750</u>
Decrease in net assets	12,032
Net assets, beginning of year, as restated	<u>202,063</u>
Net assets, end of year	<u><u>\$ 214,095</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Linden Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2003 capital projects fund* accounts for the construction of a new middle school building, as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, athletics and food service.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for sick pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. There are no contract provisions for the payment of unused vacation.

Benefits are accrued based on various contract stipulations and lengths of service. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control, the functional level, in the added needs function. Expenditures exceeded the appropriated amount by \$313,701 due to a transfer, which occurred subsequent to the final budget amendment, to reclassify special education aides under the added needs function over the pupil services function. This transfer was done to properly record the special education aides in accordance with the State of Michigan special education cost reporting requirements (reported on form SE4096). Adequate appropriations had been made for these expenditures under the pupil services function; therefore, no additional funding was needed, from a District-wide perspective, to cover these "over-expenditures".

C. Related Party Transactions

During the fiscal year, as in other years, the District entered into two separate contracts for lawn mowing services with companies owned by the President of the Board of Education and a brother of his. The contracts, which totaled an immaterial \$22,585 for 2005-06, were awarded after undergoing a formal bid process that was open to the public. The Board of Education voted on the contracts, with the President and Secretary (another brother) abstaining from the vote. At June 30, 2006 no payables were reported in the Statement of Net Assets.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	\$ 3,656,174
Investments	2,196,488

Statement of Fiduciary Net Assets

Cash and cash equivalents	190,262
Investments	<u>214,095</u>

\$ 6,257,019

Cash on hand	\$ 2,300
Deposits	1,508,328
Investments	<u>4,746,391</u>

\$ 6,257,019

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Deposits and investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Checking/savings accounts	n/a	\$ 1,508,328	n/a
Franklin Templeton Money Market Fund	n/a	214,095	n/a
Fifth Third Money Market Fund	n/a	3,079,069	n/a
Michigan Liquid Asset Fund (MILAF)	n/a	<u>1,453,227</u>	S&P-AAAm
		<u>\$ 6,254,719</u>	

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,049,701 of the District's bank balance of \$2,153,138 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

For the year ended June 30, 2006, receivables for the governmental activities are approximately 93 percent due from the State of Michigan and 7 percent other receivables. Except for \$274,114 of other receivables, the balance is expected to be collected within the next fiscal year.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2006 the District's governmental funds reported \$274,114 of *deferred revenue* related to long-term receivables recorded in connection with the Durant settlement (see Section F - Long-term debt), and \$47,087 of *unearned revenue* from prepayments on fee-based programs.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – Construction in Progress	\$ 20,310,761	\$ 887,957	\$(20,310,761)	\$ 887,957
Capital assets being depreciated:				
Land Improvements	692,504	3,390,703	-	4,083,207
Construction	11,890,303	28,944,329	-	40,220,850
Buses & Other Vehicles	17,881	-	-	17,881
Machinery & Equipment	221,539	-	-	221,539
Total capital assets being depreciated	12,822,227	31,721,250	-	44,543,477
Less accumulated depreciation for:				
Land Improvements	(166,436)	(3,268)	-	(169,704)
Construction	(5,751,341)	(498,802)	-	(6,250,143)
Machinery & Equipment	-	(1,788)	-	(1,788)
Licensed Vehicles	(67,427)	(6,872)	-	(74,299)
Total accumulated depreciation	(5,985,204)	(510,730)	-	(6,495,934)
Total capital assets being depreciated, net	6,837,023	31,210,520	-	38,047,543
Governmental activities capital assets, net	\$ 27,147,784	\$32,098,477	\$(20,310,761)	\$ 38,935,500

Depreciation expense of \$510,730 was charged to the function “Unallocated Depreciation”, and not allocated to other functions.

The District’s capital assets for the year ended June 30, 2005 were restated to agree to a physical inventory/asset appraisal performed by an independent third-party.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Payables

For the year ended June 30, 2006, accounts payable and accrued liabilities for the governmental activities are approximately 68 percent salaries and benefits payable, 23 percent due to vendors and 9 percent accrued interest on long-term debt.

E. Interfund receivables, payables and transfers

At June 30, 2006, no interfund receivables and payables were reported.

The District, from time to time, will report interfund balances between some of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2006, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 514,806	\$ -
Nonmajor governmental funds	<u>-</u>	<u>514,806</u>
	<u>\$ 514,806</u>	<u>\$ 514,806</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds to subsidize the athletics program.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation					
bonds	\$ 35,936,544	\$ 15,600,000	\$ 15,376,785	\$ 36,159,759	\$ 1,102,580
Deferred items	517,110	(1,187,181)	32,708	(637,363)	-
Leases payable	33,164	-	33,164	-	-
Compensated absences	142,893	6,861	-	149,754	-
Early retirement incentives	720,000	-	240,000	480,000	240,000
	<u>\$ 37,349,711</u>	<u>\$ 14,419,680</u>	<u>\$ 15,682,657</u>	<u>\$ 36,152,150</u>	<u>\$ 1,342,580</u>

Compensated absences and early retirement incentives are typically liquidated by the general fund.

Bonds payable at June 30, 2006, are comprised of the following issues:

General Obligation Bonds:

* \$346,777 1998 Durant School Improvement Bonds, due in annual installments of \$17,580 to \$23,243 through 2013; interest at 4.80%	\$ 204,759
\$1,710,000 2004 Energy Bonds, due in annual installments of \$155,000 to \$200,000 through 2014; interest at 3.58%	1,415,000
\$35,000,000 2003 Building and Site Bonds, due in annual installments of \$865,000 to \$2,300,000 through 2029; interest at 2.50% to 5.25%	19,010,000
2005 Refunding Bonds, due in annual installments of \$40,000 to \$1,965,000 through 2026; interest at 3.50% to 4.25%	7,790,000
2006 Refunding Bonds, due in annual installments of	

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

\$25,000 to \$2,120,000 through 2027, interest at 2.0% to 4.0%.

7,740,000

\$ 36,159,759

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,102,580	\$ 1,524,419	\$ 2,626,999
2008	1,226,052	1,522,068	2,748,120
2009	1,199,299	1,462,251	2,661,550
2010	1,240,217	1,424,526	2,664,743
2011	1,281,180	1,380,536	2,661,716
2012-2016	6,730,431	6,107,116	12,837,547
2017-2021	7,695,000	4,422,436	12,117,436
2022-2026	9,040,000	2,668,274	11,708,274
2027-2031	<u>6,645,000</u>	<u>629,226</u>	<u>7,274,226</u>
Totals	<u>\$ 36,159,759</u>	<u>\$ 21,140,852</u>	<u>\$ 57,300,611</u>

During the 2003-04 fiscal year, the District offered an early retirement incentive program to employees meeting certain eligibility criteria. The terms of this incentive will require the District to make annual payments of \$240,000 in fiscal years 2007 and 2008.

Advance Refunding

In the current year, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets.

During the year ended June 30, 2006, the District twice defeased portions of its 2003 Building and Site bonds. The balance of defeased bonds outstanding as of June 30, 2006 was \$14,410,000, which represents \$7,290,000 and \$7,120,000 placed in escrow as part of the 2005 and 2006 debt refundings, respectively.

The current year refundings were undertaken to reduce total debt service expenditures over the next 20 years by \$894,884 and resulted in an economic gain of \$541,365.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2006, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 163,232</u>	<u>\$ 1,500,000</u>	<u>\$ 1,466,538</u>	<u>\$ 197,247</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits paid out. No unemployment expense is recorded in the Statement of Activities and no provision has been made for possible future claims.

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The Linden Community Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Linden Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the Linden Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$1,986,686, \$1,698,412 and \$1,476,458, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

LINDEN COMMUNITY SCHOOLS

Notes to the Financial Statements

D. Bonded Construction Costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

E. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

F. Restatements

For the fiscal year ended June 30, 2006, certain restatements were made to beginning fund balance and net asset accounts due to reporting errors in prior periods.

Beginning fund balance in the General Fund was restated by \$13,829 for certain compensated absences that were previously reported as fund liabilities, and by \$16,555 for purchase orders that were improperly accrued. The cumulative effect of these adjustments resulted in a net increase to the beginning fund balance of \$30,384.

Certain adjustments were made that only affected the District-wide statements. Beginning net assets were restated by \$325,577 for long-term receivables related to the Durant settlement (these receivables were fully deferred in the fund financial statements), by \$720,000 for the long-term debt portion of an early retirement incentive, and by \$527,821 to match an independent physical inventory/asset appraisal conducted on the District's capital assets.

The net effect of these restatements for the governmental activities resulted in a increase in the beginning net assets of \$163,782.

In addition, beginning Fiduciary net assets were restated by \$202,063 to adjust for the Scholarship Private-Purpose Trust Fund, which was previously reported as an agency fund liability.

* * * * *

COMBINING FINANCIAL STATEMENTS

LINDEN COMMUNITY SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

<u>ASSETS</u>	<u>Special Revenue</u>		<u>2003 Debt Service</u>
	<u>Athletics</u>	<u>Food Service</u>	
Assets			
Cash and cash equivalents	\$ 17,863	\$ 31,436	\$ 207,024
Due from other governments	-	11,400	-
Inventory	-	9,446	-
<u>TOTAL ASSETS</u>	<u>\$ 17,863</u>	<u>\$ 52,282</u>	<u>\$ 207,024</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Salaries payable	5,491	7,296	-
Deferred revenue	-	-	-
Total liabilities	5,491	7,296	-
Fund balances			
Reserved for inventory	-	9,446	-
Unreserved, undesignated	12,372	35,540	207,024
Total fund balances	12,372	44,986	207,024
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 17,863</u>	<u>\$ 52,282</u>	<u>\$ 207,024</u>

Debt Service			Capital Projects	Total
2005 Debt Service	2006 Debt Service	Durant Debt Service	Sinking Fund	
\$ 12,986	\$ 10,407	\$ -	\$ 305,190	\$ 584,906
-	-	204,759	-	216,159
-	-	-	-	9,446
<u>\$ 12,986</u>	<u>\$ 10,407</u>	<u>\$ 204,759</u>	<u>\$ 305,190</u>	<u>\$ 810,511</u>
\$ -	\$ -	\$ -	\$ 7,676	\$ 7,676
-	-	-	-	12,787
-	-	204,759	-	204,759
-	-	204,759	7,676	225,222
-	-	-	-	9,446
12,986	10,407	-	297,514	575,843
12,986	10,407	-	297,514	585,289
<u>\$ 12,986</u>	<u>\$ 10,407</u>	<u>\$ 204,759</u>	<u>\$ 305,190</u>	<u>\$ 810,511</u>

LINDEN COMMUNITY SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	<u>Special Revenue</u>		<u>2003</u>
	<u>Athletics</u>	<u>Food Service</u>	<u>Debt Service</u>
Revenue			
Local sources	\$ 59,373	\$ 626,964	\$ 2,026,787
State aid	-	44,460	-
Federal sources	-	248,769	-
Total revenue	<u>59,373</u>	<u>920,193</u>	<u>2,026,787</u>
Expenditures			
Food service activities	-	974,035	-
Athletic programs	562,820	-	-
Debt service:			
Principal repayment	-	-	730,000
Interest and fiscal charges	-	-	1,205,530
Bond issuance costs	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>562,820</u>	<u>974,035</u>	<u>1,935,530</u>
Revenue over (under) expenditures	<u>(503,447)</u>	<u>(53,842)</u>	<u>91,257</u>
Other financing sources (uses)			
Issuance of long-term debt	-	-	-
Bond discount	-	-	-
Payments to refunding bond escrow agent	-	-	-
Transfers in	514,806	-	-
Total other financing sources (uses)	<u>514,806</u>	<u>-</u>	<u>-</u>
Net change in fund balances	11,359	(53,842)	91,257
Fund balances, beginning of year	<u>1,013</u>	<u>98,828</u>	<u>115,767</u>
Fund balances, end of year	<u><u>\$ 12,372</u></u>	<u><u>\$ 44,986</u></u>	<u><u>\$ 207,024</u></u>

Debt Service			Capital Projects	
2005 Debt Service	2006 Debt Service	Durant Debt Service	Sinking Fund	Total
\$ 190,490	\$ 94,801	\$ -	\$ 808,944	\$ 3,807,359
-	-	24,352	-	68,812
-	-	-	-	248,769
190,490	94,801	24,352	808,944	4,124,940
-	-	-	-	974,035
-	-	-	-	562,820
70,000	-	16,785	150,000	966,785
110,323	84,394	7,567	56,027	1,463,841
109,103	110,489	-	-	219,592
-	-	-	1,277,343	1,277,343
289,426	194,883	24,352	1,483,370	5,464,416
(98,936)	(100,082)	-	(674,426)	(1,339,476)
7,860,000	7,740,000	-	-	15,600,000
(14,701)	(17,467)	-	-	(32,168)
(7,733,377)	(7,612,044)	-	-	(15,345,421)
-	-	-	-	514,806
111,922	110,489	-	-	737,217
12,986	10,407	-	(674,426)	(602,259)
-	-	-	971,940	1,187,548
\$ 12,986	\$ 10,407	\$ -	\$ 297,514	\$ 585,289

SINGLE AUDIT

LINDEN COMMUNITY SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Direct Program - Food Distribution:							
Entitlement Commodities	10.550	-n/a-	35,774	\$ -	\$ 35,774	\$ 35,774	\$ -
Bonus Commodities	10.550	-n/a-	2,711	-	2,711	2,711	-
				-	38,485	38,485	-
Passed-through Michigan Department of Education:							
2004-2005 School Breakfast	10.553	051970	2,622	-	2,622	2,622	-
2005-2006 School Breakfast	10.553	061970	22,914	-	22,914	22,914	-
				-	25,536	25,536	-
National School Lunch:							
Fresh Fruit and Vegetable Program	10.555	050950	-	20,061	20,061	-	-
Fresh Fruit and Vegetable Program	10.555	050950	19,122	-	19,122	19,122	-
2004-2005 Section 4	10.555	051950	7,750	-	7,750	7,750	-
2005-2006 Section 4	10.555	061950	53,204	-	53,204	53,204	-
2004-2005 Section 11	10.555	051960	12,950	-	12,950	12,950	-
2005-2006 Section 11	10.555	061960	88,130	-	88,130	88,130	-
				20,061	201,217	181,156	-
2004-2005 Special Milk Program for Children	10.556	051940	476	-	476	476	-
2005-2006 Special Milk Program for Children	10.556	061940	3,116	-	3,116	3,116	-
				-	3,592	3,592	-
Total U.S. Department of Agriculture				20,061	268,830	248,769	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2004-2005 Title V, Part A	84.298	060250-0506	1,220	-	1,220	1,220	-
2005-2006 Title II, Part A	84.367	060520-0506	64,653	-	64,653	64,653	-
Passed-through Genesee Intermediate School District:							
2005-2006 IDEA Flowthrough	84.027	060450-0506	679,631	-	679,631	679,631	-
2005-2006 Handicapped Preschool & School	84.027	060440 SPSR	4,400	-	4,400	4,400	-
				-	684,031	684,031	-
Total U.S. Department of Education				-	749,904	749,904	-
U.S. Department of Health and Human Services							
Passed-through Genesee Intermediate School District							
2005-06 Medicaid Outreach	93.778	n/a	65,952	-	65,952	65,952	-
U.S. Department of Homeland Security							
Passed-through Michigan State Police							
2005-06 Part II - Equipment	97.004	n/a	6,670	-	6,669	6,669	-
Total Expenditures of Federal Awards				\$ 20,061	\$ 1,091,355	\$ 1,071,294	\$ -

LINDEN COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Linden Community Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Linden Community Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 18, 2006

Board of Education
Linden Community Schools
Linden, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **LINDEN COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Linden Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Linden Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

August 18, 2006

Board of Education
Linden Community Schools
Linden, Michigan

Compliance

We have audited the compliance of **LINDEN COMMUNITY SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Linden Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Linden Community Schools' management. Our responsibility is to express an opinion on Linden Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Linden Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Linden Community Schools' compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Linden Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Linden Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

LINDEN COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no
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SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



August 18, 2006

To the Board of Education of
Linden Community Schools
Linden, Michigan

We have audited the financial statements of Linden Community Schools for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated May 23, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Linden Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Linden Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Linden Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Linden Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on **Linden Community Schools'** compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Linden Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Linden Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you (other than the prior period restatements described in Note IV.F.), or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Linden Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Linden Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Linden Community Schools' financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Linden Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.